

Message Text

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ACTION EB-08

INFO OCT-01 NEA-10 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 FRB-01 H-02 INR-07 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-02 AID-05 SS-15 STR-04
ITC-01 TRSE-00 USIA-15 PRS-01 SP-02 FEAE-00
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FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC PRIORITY 5702

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TAGS: ETRD, IS

SUBJECT: GSP - FIRST YEAR REVIEW

REF: STATE 67507

1. SUMMARY: GOI OFFICIALS AND LOCAL BUSINESSMEN RECOGNIZE USEFULNESS OF GSP AND BELIEVE IT WILL PROVE BENEFICIAL TO ISRAEL. BECAUSE EC IS ISRAEL'S MAIN TRADING PARTNER, THERE IS MORE INTEREST IN EC ASSOCIATION AGREEMENT THAN IN GSP. THERE WERE DIFFICULTIES AT FIRST IN PROCESSING UNCTAD FORM A, BUT THIS PROBLEM HAS BEEN RESOLVED. END SUMMARY.

2. STATISTICS CITED REFTEL HAVE NOT YET BEEN RECEIVED. FOLLOWING BASED ON PRELIMINARY GOI TRADE STATISTICS WHICH DO NOT PROVIDE SPECIFIC COMMODITY BREAKDOWN NEEDED FOR MORE DETAILED ANALYSIS.

3. ISRAEL'S EXPORTS TO U.S. IN 1976 INCREASED BY 42 PERCENT COMPARED TO INCREASE OF 23 PERCENT TO EC AND INCREASE OF 25 PERCENT IN TOTAL EXPORTS. IN ORDER TO FOCUS ON GSP FACTORS, FOLLOWING DISCUSSION SUBTRACTS FROM OVERALL EXPORTS VALUE OF FRESH AGRICULTURAL PRODUCTS
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(DESTINED MOSTLY FOR EC) AND OF DIAMOND EXPORTS (NOT SUBJECT TO GSP TREATMENT).

4. IN 1976 INDUSTRIAL EXPORTS INCREASED BY 25 PERCENT OVER 1975 AND REACHED \$1.27 BILLION, OF WHICH \$218 MILLION TO THE U.S. AND \$417 MILLION TO THE EC. THE U.S. SHARE OF ISRAEL'S TOTAL INDUSTRIAL EXPORTS INCREASED

TO 16.9 PERCENT, COMPARED TO 15.2 PERCENT IN 1975. IT SHOULD BE POINTED OUT, HOWEVER, THAT NOT UNTIL JULY 1, 1977 WILL ISRAEL'S MAIN INDUSTRIAL EXPORTS TO THE EC BENEFIT FROM DUTY-FREE STATUS. THUS, THE EC SHARE MAY SHOW HIGHER RATES OF INCREASE THIS YEAR THAN IN THE PAST.

5. A BREAKDOWN OF EXPORTS TO U.S. BY MAJOR CATEGORIES SHOWS THAT SIGNIFICANT INCREASES IN EXPORTS WERE REGISTERED BY TRANSPORTATION EQUIPMENT, MACHINERY, CHEMICALS, METAL PRODUCTS, RUBBER AND PLASTICS AND WOOD AND FURNITURE. ELECTRONIC EQUIPMENT EXPORTS SHOWED A SLIGHT DROP COMPARED TO 1975.

6. REGARDING INVESTMENT, EMBASSY HAS BEEN TOLD THAT CERTAIN FIRMS INCREASED INVESTMENT IN ORDER TO TAKE ADVANTAGE OF GSP POSSIBILITIES. GOI INVESTMENT OFFICIAL STATES, HOWEVER, THAT HE DID NOT KNOW OF ANY INVESTMENT SPECIFICALLY ATTRIBUTED TO GSP, ALTHOUGH GSP AVAILABILITY IS PART OF SALES PITCH GIVEN TO PROSPECTIVE FOREIGN INVESTORS. IN THIS REGARD, A SENIOR TRADE OFFICIAL RECENTLY REPORTED THAT U.S. MANUFACTURERS PLAN TO INVEST \$50 MILLION IN ISRAEL IN INDUSTRIAL ENTERPRISES TO PRODUCE FOR EXPORT, PRIMARILY TO THE EC.

7. IN 1976 INDUSTRIAL INVESTMENT DROPPED 4 PERCENT IN REAL TERMS COMPARED TO 1975. INDUSTRIAL INVESTMENT THIS YEAR IS EXPECTED TO REMAIN CONSTANT IN REAL TERMS. EXPORTS OF INDUSTRIAL GOODS THIS YEAR ARE FORECAST TO INCREASE BY 21 PERCENT (17 PERCENT IN QUANTITY AND 4 UNCLASSIFIED

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PERCENT IN PRICE) TO A NEW HIGH OF \$1.5 BILLION.

8. THROUGH A VARIETY OF INCENTIVES THE GOI IS ATTEMPTING TO CARRY OUT STRUCTURAL CHANGES DESIGNED TO INCREASE THE SHARE OF EXPORTS. THIS TREND IS EXPECTED TO ACCELERATE IN 1977 COMPARED TO PREVIOUS YEARS. IN 1977 THE SHARE OF RESOURCES ALLOCATED TO EXPORT WILL REACH 25 PERCENT OF THE TOTAL, COMPARED TO 23 PERCENT IN 1976 AND 20 PERCENT IN 1975. OUT OF THE ADDITIONAL RESOURCES (EXCLUDING THOSE DIRECTED TO DEFENSE IMPORTS), 82 PERCENT WILL BE USED FOR EXPORTS AGAINST 59 PERCENT IN 1976 AND 51 PERCENT IN 1975. IN 1977 A TOTAL OF 10,000 ADDITIONAL WORKERS WILL BE EMPLOYED IN EXPORT INDUSTRIES.

9. THE EC IS ISRAEL'S LEADING TRADING PARTNER SO IT IS NATURAL THAT MOST ATTENTION HAS FOCUSED ON THE TARIFF REDUCTIONS ACCORDED BY IT TO ISRAEL'S MAIN INDUSTRIAL EXPORTS. EVENTUALLY, HOWEVER, ISRAEL WILL ALSO HAVE TO ACCORD DUTY-FREE TREATMENT TO INDUSTRIAL IMPORTS FROM

THE EC. AS THIS OCCURS, THE NON-COMPENSATORY FEATURE
OF GSP MAY BE BETTER APPRECIATED.

10. PREVIOUS GOI ANALYSES INDICATED THAT ONLY 27
PERCENT OF ISRAEL'S TOTAL EXPORT PRODUCT CATEGORIES MIGHT
BENEFIT FROM GSP TRATMENT. OF THE 2700 ITEMS CURRENTLY
ON THE LIST, OFFICIALS STATE THAT ROUGHLY 600 ARE EXPORTED
TO U.S. THEY SUGGESTED TEXTILE APPAREL ITEMS AS A DESIRED
ADDITION TO THAT LIST.

11. CHAMBERS OF COMMERCE NOTED DIFFICULTIES (NOW
RESOLVED) WITH COLUMN 8 OF UNCTAD FORM A. THEY SUGGESTED
THAT U.S. CUSTOMS COMBINE FORM A AND ITS ADDENDUM (NOW
ON A SEPARATE SHEET) INTO ONE FORM.
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